

Message Text

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SUBJECT: ARCTIC GAS PIPELINE RECOMMENDED BY FPC STAFF

1. INTRODUCTION AND SUMMARY

THE FPC STAFF, ON DECEMBER 7, RELEASED A REPORT WHICH STRONGLY FAVORS THE ARCTIC GAS ROUTE, THROUGH THE MACKENZIE RIVER VALLEY, FOR THE DELIVERY OF ALASKAN NATURAL GAS TO MARKETS IN THE U.S. AND CANADA. THE FPC STAFF REPORT IS NOT RPT NOT THE OFFICIAL POSITION OF THE FEDERAL POWER COMMISSION AND REPRESENTS ONLY AN INDEPENDENT STAFF VIEW. ADMINISTRATION LAW JUDGE LITT IS FREE TO IGNORE THE STAFF VIEW WHEN HE ISSUES HIS DECISION ON JANUARY 15. LITT'S DECISION MUST BE REVIEWED BY THE COMMISSIONERS OF THE FPC. THE COMMISSIONERS ARE REQUIRED BY THE ALASKAN NATURAL GAS ACT OF 1976 TO MAKE A RECOMMENDATION TO THE PRESIDENT BY MAY 1, 1976. THE PRESIDENT'S DECISION, DUE ON SEPTEMBER 1, 1977, MUST BE APPROVED BY THE CONGRESS. THEREFORE, ARCTIC GAS HAS A LONG WAY TO GO BEFORE IT IS DECLARED THE WINNER. END SUMMARY.

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BASIS OF COMPARISON:

BECAUSE THE ALCAN APPLICATION WAS PREPARED ON THE ASSUMPTION THAT THE MAPLELEAF PROJECT WOULD FOLLOW WITHIN 18 MONTHS, THE FPC STAFF USED A COMBINATION OF ALCAN AND MAPLELEAF COST DATA AS THE BASIS FOR COMPARISON WITH THE ARCTIC GAS PROJECT.

THE FPC STAFF FOUND THE WESTERN LEG OF THE ARCTIC GAS PIPELINE, ORIGINALLY INCLUDED IN THE APPLICATION, TO BE UNECONOMIC. THEREFORE, THE WESTERN LEG AND ITS ASSOCIATED COSTS WERE FACTORED OUT OF THE ARCTIC GAS CALCULATIONS.

THE EL PASO PROJECT WAS NOT SUBSTANTIALLY MODIFIED BY THE STAFF FOR PURPOSES OF COMPARISON.

STRONG RECOMMENDATION FOR ARCTIC GAS:

FOLLOWING IS QUOTE FROM REPORT. BEGIN QUOTE. IT IS THE STAFF'S VIEW AS EXPRESSED ABOVE THAT THE ARCTIC GAS PROJECT IS CONCEPTUALLY THE BEST PROJECT IN THAT IT IS THE SHORTEST ROUTE FOR THE DELIVERY OF ALASKAN GAS INTO THE MAJOR AREAS OF THE LOWER 48 STATES, AS WELL AS BEING THE MOST FUEL EFFICIENT IN THAT IT PROVIDES THE CHEAPEST METHOD OF DELIVERING U.S. GAS TO U.S. CONSUMERS AND CANADIAN GAS TO CANADIAN CONSUMER END QUOTE.

OTHER FACTORS FAVORING ARCTIC GAS ARE THE FOLLOWING:

-- THE ARCTIC GAS ROUTE FOLLOWS A NATURAL CORRIDOR ALONG THE BEAUFORT SEA AND THROUGH THE MACKENZIE RIVER VALLEY. MOUNTAINS ARE FOR THE MOST PART AVOIDED, AND EARTHQUAKE DANGER IS LESS THAN IN OTHER AREAS. THE ROUTE IS 30 PERCENT SHORTER THAN THE ALCAN ROUTE.

-- THE ARCTIC GAS 48 INCH DIAMETER PIPE AND 1680 PSI PRESSURE IS A CONSISTENT NEXT STEP IN PROVEN, RELIABLE PIPELINE TECHNOLOGY. IN CONTRAST, THE EL PASO PROJECT DEPENDS UPON NEW TECHNIQUES AND UNCONVENTIONAL CRYOGENIC TANKERS. ALCAN USES SMALLER PIPE AND LOWER

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PRESSURES, AND IS THEREFORE UNECONOMIC.

-- ARCTIC GAS WOULD CONNECT TWO PROVEN GAS RESERVE POOLS NORTH SLOPE AND MACKENZIE DELTA. THE CAPACITY OF THE 48 INCH PIPE WOULD BE SUFFICIENT TO CARRY GAS FROM BOTH

SOURCES. SERVING TWO POOLS RATHER THAN ONE, ARCTIC GAS IS IN THE BEST POSITION TO COPE WITH VARIATIONS

FROM CURRENT ESTIMATES OF PRODUCTION RATES.

-- THE FPC STAFF ESTIMATES THE COST OF TRANSPORTING ONE MILLION CUBIC FEET OF GAS TO CALIFORNIA FROM THE NORTH SLOPE IS DOLS. 1.84 FOR EL PASO, DOLS. 1.55 FOR ALCAN, AND DOLS. 1.32 FOR ARCTIC GAS. ALTHOUGH THE STAFF DID NOT CONSIDER THE WESTERN LEG TO CALIFORNIA OF THE ARCTIC GAS PROPOSAL, THESE COST ESTIMATES WERE DERIVED FOR PURPOSES OF COMPARISON. THESE FIGURES APPEAR TO REPRESENT ONLY OPERATING COSTS, AND ARE NOT INDICATIVE OF WHAT TARIFFS WILL BE NEEDED TO MAKE THE PROJECT ECONOMICALLY VIABLE.

CANADIAN FACTORS:

THE FPC STAFF REPORT CITES THE DRAFT TRANSIT PIPELINE TREATY AS EVIDENCE OF U.S.-CANADIAN COMMITMENT TO CONTINUE COOPERATION, AND MINIMIZES RISK ASSOCIATED WITH A CANADIAN ROUTE. BEGIN QUOTE FROM REPORT. THE RISKS ASSOCIATED WITH THE TRANSIT OF UNITED STATES GAS ACROSS CANADA ARE QUOTE REAL END QUOTE, BUT STAFF BELIEVES THEY ARE MODEST AND CAN BE PRUDENTLY INCURRED. END QUOTE.

FOLLOWING QUOTE APPEARS IN CONCLUSION AND RECOMMENDATION SECTION. BEGIN QUOTE. IT IS POSSIBLE THAT THE CANADIAN GOVERNMENT WILL DECIDE THAT IT IS IN CANADA'S BEST INTERESTS TO DEFER INDEFINITELY INTO THE FUTURE, CONSIDERATION OF ANY AND ALL PROJECTS SOUTH ALONG THE MACKENZIE RIVER CORRIDOR, NO MATTER WHAT THE ECONOMIC CONSEQUENCES FOR CANADA AND THE UNITED STATES. WE BELIEVE, HOWEVER, THAT OUR RESPONSIBILITIES IN THIS CASE ARE TO DEVELOP A RECORD BASED UPON TRADITIONAL ECONOMIC, ENGINEERING, UNCLASSIFIED

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ENVIRONMENTAL AND OTHER FACTORS AND TO TAKE A POSITION BASED UPON THESE FACTORS AND THESE FACTORS ALONE. DETERMINATIONS AS TO WHAT THE UNITED STATES GOVERNMENT SHOULD DO IN RESPECT TO AUTHORIZING AN ALASKAN GAS PROJECT, IF USE OF THE MACKENZIE VALLEY CORRIDOR IS PRECLUDED, WOULD DEPEND UPON THE REASON FOR THE CANADIAN REJECTION OF A MACKENZIE VALLEY CORRIDOR AND A CANADIAN DECISION ON WHAT WAS NOT PRECLUDED. CONSULTATIONS BETWEEN THE TWO GOVERNMENTS WOULD BE NECESSARY, AND SHOULD INCLUDE THE PARTICIPATION OF EACH GOVERNMENT'S WORKING LEVEL STAFF WHO WERE INTIMATELY INVOLVED IN THE DEVELOPMENT OF THE DECISION-MAKING PROCESS. ONLY IN THE CASE WHEN NO ALASKA GAS WOULD BE PERMITTED TO TRANSIT

CANADA IS THERE A CLEAR STAFF CHOICE OF AN ALTERNATIVE

TO THE ARCTIC GAS PROJECT, WITHOUT THE NEED FOR MORE
INFORMATION. IN THIS PARTICULAR SITUATION THE EL PASO
ALASKA PROJECT, IN ONE OF ITS VARIATIONS, WOULD BE ALL
THAT THE UNITED STATES COULD AUTHORIZE END QUOTE.

COPY OF FULL REPORT WILL BE SENT TO OTTAWA WITH JOHN DAY
UPON COMPLETION OF HIS CONSULTATIONS IN WASHINGTON. ROBINSON

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